

DO OR DIE

By Steve Proctor

WHEN THE RECESSION ALMOST CLOSED HIS WINDOW OF OPPORTUNITY, **TONY HALL** WAS FORCED TO LOOK FOR ANOTHER WAY IN. HE FOUND IT IN PIPELINE INSPECTIONS AND SEMI-SUBMERSIBLE DRILL RIG CERTIFICATIONS.

Tony Hall is CEO and founder of Welaptega Marine Ltd.

Necessity is the mother of invention. Plato may have first coined the phrase more than 2,000 years ago, but Tony Hall, founder of Welaptega Marine in Halifax, will attest to its veracity.

Fifteen months ago, the Halifax-based technology firm was booming as it provided blue chip oil and gas companies with 3-D video inspections of the chains and wires used to anchor their floating production platforms to the bottom of the ocean. The company had 18 staff and was hard at work on 14 different projects around the globe. Its unique proprietary equipment was driving an aggressive growth strategy, but in hindsight Hall recognizes now it was really “a one trick pony.”

“We had a niche we were pursuing aggressively, but we were sideswiped by the recession,” he says seated in the boardroom of the company’s downtown Halifax harbour-front office. “We weren’t prepared for the massive contraction worldwide in the oil and gas services industry.”

With energy giants cutting back on everything that didn’t directly impact their ability to produce, 80 per cent of the orders on his books evaporated. The oil and gas companies reasoned the integrity monitoring that

Welaptega was providing could probably be put off a year or two without any serious consequences.

Facing a projected \$1-million drop in revenues, but unwilling to watch the company dissolve like the chains and rope he was monitoring, he knew he had just one choice: innovate. He had to find a way to use the company’s technological advantage and apply it in a new way to other segments of the industry.

The task was not entirely new to Hall. A marine biologist by training, he started Welaptega in 1991 after an oil industry executive learned about his research into marine growth on salmon farming cages in St. Andrew’s, New Brunswick. “He asked if I could use the technology to measure some chain and look for signs of wear. It took a little adapting, but I created something that would do the trick. I was the first tool in our tool box.”

Convinced that other companies would be interested in the service, he moved to the U.K. in 1996 to prove the technology in the North Sea. ExxonMobil, Shell, ChevronTexaco and BP quickly became clients and Welaptega became the only company in the world certified by Lloyds of

London to do mooring inspections.

Business from the company’s U.K. base grew to include opportunities in Norway, Houston, Texas and Perth, Australia. Then, in 2002, the siren call of home lured Hall and his wife and business partner, Gail Lethbridge, back to Nova Scotia. The business came with them.

“Our equipment base remains in Aberdeen, Scotland because there are some tax and logistical efficiencies, but our corporate headquarters is here.”

He pauses to look out the boardroom window as a cargo ship loaded with multi-coloured containers glides by. “It could be anywhere,” he continues. “Most of our business is elsewhere, but our hearts are here. So here we’ll stay.”

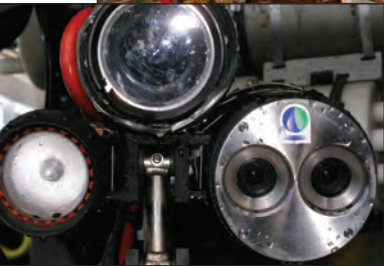
It was in this room, Hall says, that he and his board plotted the survival of the company by identifying pipeline inspections and semi-submersible drill rig certifications as two new areas the company could exploit using variations of their existing technology.

With pipelines inspections, the company has been able to provide customers with detailed 3-D images of damage caused by natural phenomena like tidal currents, or (as happened in one case) a fishing trawler.

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Offshore engineers assemble the Welaptega Chain Measurement System to survey mooring chains on a floating production system. (inset) Welaptega uses underwater 3D video and modeling to survey subsea assets on offshore facilities.

By having a detailed understanding of the damage, he said companies can develop the most effective repair strategies.

The work with the drill rigs has been even more successful.

Recertification of rigs previously required that the vessels be tied up at a wharf and their chains, ropes and wires had to be run through a land-based machine that measured wear and tear. With Welaptega's solution, the conditions of the chains and wires can be evaluated by subsea video systems that create an accurate 3-D computerized

image. The rig can continue to work without the lost time or the potentially dangerous manual labour associated with traditional methods.

"Pride International (a major deepwater drilling company based in Houston, Texas) told us we saved them \$10-million on our first job with them. They've mobilized us for another rig project in Brazil and we think there is huge market potential out there."

At the same time Welaptega was being forced to be technologically innovative, Hall admits the company needed to be innovative on the fundraising front too. In 2006 the company secured a \$1.5-million loan from BDC Venture Capital and InNovacorp (the Nova Scotia crown corporation created to help start-up technology companies), but the government overseers were anxious almost immediately.

"True venture capitalists wear risk for high return. When the market was good, BDC and InNovacorp acted like venture capitalists, but when the market got tough – when the spin-off from Hurricane Katrina continued to delay or cancel contracts – they acted like bankers."

David Dobbin, a long time investor in Welaptega who eventually bought out the BDC/InNovacorp stake in the business, said taking the government funding out of the busi-



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ness was the only way to move forward with the company's business plan. Dobbin is chairman of Elephant & Castle Group Inc. (an English style pub and restaurant chain) and a former senior executive with CHC Helicopter.

The company is now financially strong, but Tony Hall is still mad. Even when the company found the money to buy out the government investment, he said the bureaucrats were intransigent in their repayment terms. Not only did the \$1.5-million loan need to be repaid in full, they demanded \$700,000 cash in exchange for their equity position.

"Rather than helping position our company for growth, they were hitting our bottom line. Is this the way government-funded agencies designed to stimulate the economy are supposed to act? I don't think most Nova Scotians would agree it is in the best interest of the province."


Dan MacDonald, CEO of InNovacorp, said his people worked very hard on securing Welaptega's initial financing, helped the company establish a product development road map and provided advice to Hall surrounding the Dobbin transaction.

"We realize there were different views on the final transaction, but we do not share Mr. Hall's characterization of the situation," says



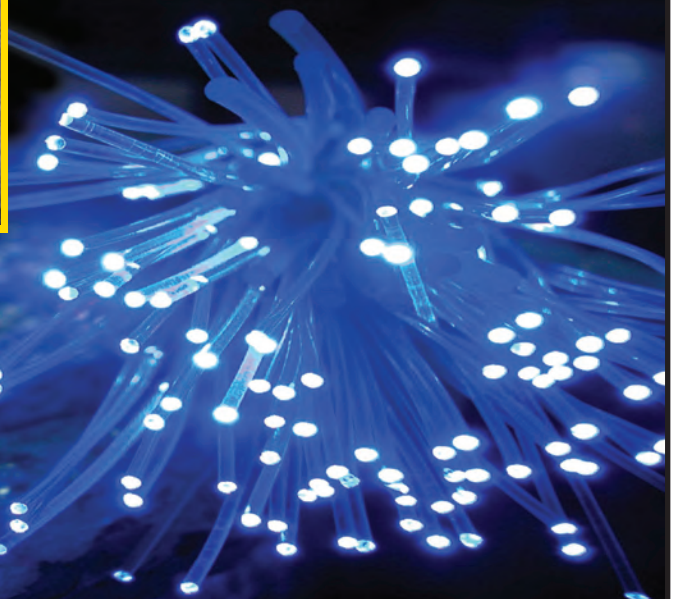
The Welaptega Chain Measurement System is used for a topside survey of mooring chains on a drill rig.

MacDonald. "Still, we have high regard for Welaptega. It is a great example of an innovative Nova Scotia company competing and winning business globally."

Hall said the one-two punch of payout and the contraction of the market did force the temporary slashing of staff, but with new financial partners and the expanded range of services, the company has hired back most workers. Today, the future looks promising once again for Waleptega as it moves aggressively to begin work on new projects in Rio de Janeiro, Brazil and Lagos, Nigeria. 

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